

The
Delaware
Economic
Development
Authority

Financial Statements
For the Year Ending
June 30, 2011

The Delaware Economic Development Authority

Annual Financial Report

for

Fiscal Year June 30, 2011

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ABOUT THE DELAWARE ECONOMIC DEVELOPMENT AUTHORITY

The Delaware Economic Development Authority (the Authority) is a public corporation created pursuant to 29 *Del. C.* 50, and is empowered by the statute to administer the Delaware Strategic Fund program and other economic development programs of the State of Delaware.

ABOUT THE FINANCIAL STATEMENTS

To ensure accuracy, the Authority intends to seek audited financial statements in the near future. In preparation, several reporting adjustments have been made during the June 30, 2011 fiscal year. Thus, new accounts may appear on the 2011 statements.

This annual financial report consists of (1) *management discussion and analysis*; (2) *basic financial statements* and 3) *the accompanying notes to financial statements*. The Authority is a self and State-supported entity. The financial statements are presented using the accrual basis of accounting. While detailed sub-fund information is not presented, separate accounts are maintained for each program or project to control and manage assets for particular purposes or to demonstrate that the Authority is properly using specific appropriations.

MANAGEMENT DISCUSSION AND ANALYSIS

While the Authority is both a non-profit corporation created by statute and its own business entity, the majority of its disposable funds is a result of the annual Bond Bill appropriation. The Authority was appropriated \$30,437,400 for the June 30, 2011 fiscal year.

During the June 30, 2011 fiscal year the Authority, closed the following funds and transferred their balances into the Delaware Strategic Fund: 1) the Technology-based Seed I Fund, 2) the Technology-based Seed II Fund and 3) the Pre-Venture Fund. In addition, any future revenues from the Venture Capital Fund will be deposited into the Strategic Fund. The Clean Energy Partnership Fund will remain a separate fund through the June 30, 2011 fiscal year, and its cash is restricted.

The figures below illustrate the Strategic Fund's and the Clean Energy Fund's activities.

<i>Fund</i>	<i>Grants</i>	<i>SBIR/STTR Grants</i>	<i>Brownfield Grants</i>	<i>Notes</i>	<i>LIFT</i>	<i>Equity</i>	<i>Bond & Budget Bill</i>	<i>Total Disbursed</i>
Strategic Fund	20	7	-	11	73	1	2	\$23,434,703
Clean Energy Fund	1	-	-	-	-	-	-	\$2,500
Totals	21	7	-	11	73	1	2	\$ 23,437,203

2011 Developmental Figures

\$7,834,211 in Strategic Fund grant disbursements

\$2,500 in Clean Energy Partnership Fund grant disbursements

\$340,000 in SBIR/STTR Strategic Fund grant disbursements

\$14,407,500 in Strategic Fund note originations

\$80,000 in Strategic Fund equity investments

\$272,992 in Strategic Fund LIFT disbursements

\$100,000 in Bond Bill and \$400,000 in Budget Bill grant appropriations for external entities

Financial Snapshot

The following is a financial review based upon the statements prepared for the years ending June 30, 2010 and 2011.

(I) Liquidity

<i>Current Assets</i>	<i>2011</i>	<i>Common-Sized</i>	<i>2010</i>	<i>Common-Sized</i>
Cash - unrestricted	\$ 57,131,811.19	88%	\$ 29,822,154.51	72%
Cash – restricted LIFT & Clean Energy	\$ 2,168,563.47	3%	\$ 4,961,063.47	12%
Cash - restricted loan control Account	\$ 163,704.15	0%	\$ -	0%
Cash - restricted Access Program	\$ 1,020,055.50	2%	\$ 1,351,326.03	3%
Current - notes receivable	\$ 1,054,106.44	2%	\$ 1,631,608.00	4%

The Authority, by nature of its activities, carries highly liquid assets and very little in liabilities. Its largest assets are cash and notes receivable. Unrestricted cash amounts to 88% of its current assets and 50% of its total assets. Total note receivable account for 45% of total assets, with the majority being non-current.

The entity's debt is limited to deferred revenue accounts held in participating Delaware Access Program bank accounts. Total liabilities are insignificant when compared to current assets, approximately 1%. Total liabilities increase approximately 11% each year.

<i>Total Liabilities</i>	<i>Total 2011</i>	<i>2011</i>	<i>2010</i>
Delaware Access Program deferred revenues	\$ 441,587.10	1%	1%

The Authority, by nature of its function, is liquid. Its current ratios are below:

<i>Liquidity</i>	<i>2011</i>	<i>2010</i>
Current ratio	146.37	106.76
Cash ratio	129.38	76.47
Working Capital	\$ 64,191,927.08	\$ 41,241,690.71

While highly liquid, based on current cash balances, the entity has outstanding commitments pending disbursement. Projects approved by the Council on Development Finance (CDF) awaiting disbursement are each subject to fulfilling any contingencies. Outstanding offer letters must be presented to the CDF and are subject to contingencies prior to disbursement. See below:

<i>Net Cash Position</i>	<i>2011</i>
Total cash	\$ 60,484,134.31
Less cash restricted	\$ (3,352,323.12)
Less CDF approved commitments	\$ (37,161,066.00)
Less outstanding offer letters	\$ (28,123,055.00)
Net Cash	\$ (8,152,309.81)

While unlikely, the Authority could have insufficient cash funds, assuming all outstanding contingencies are eventually approved for disbursement and no new revenues and appropriations are realized by the Authority.

(II) Revenue and Profitability

For the fiscal year ending June 30, 2011, the Authority earned 11% of its revenue through operating income. See the sources of operating income below:

<i>Operating Income</i>	<i>2011</i>	<i>2010</i>
Delaware Access Program master account interest income	\$ 27.48	\$ 46.21
Fee income	\$ 81,611.00	\$ 242,775.00
Interest on loans	\$ 1,839,377.30	\$ 457,735.53
Interest on deposits	\$ 339,041.39	\$ 681,221.00
Cancelled Checks	\$ 1,565,000.00	\$ 166,000.00
Total Operating Income	\$ 3,825,057.17	\$ 1,547,777.74

The Authority provides statewide financial assistance to new or expanding businesses, governmental units and certain organizations that are exempt from federal income taxation (collectively, assisted persons) by issuing tax-exempt bonds and lending the proceeds of such bonds to these assisted persons. Fee income associated with the bond issuance peaked in 2010 due to the maturity of an abnormally high bond of which the assisted persons paid the Authority annual fees of 1%. The interest on loans increased as a result of the 344% increase in notes from 2009 to 2010. The decline in interest on deposits is a result of the Authority's funds yielding lowered earning interest rates. Various checks were written during the fiscal year ending June 30, 2010; however, these specific checks expired during the fiscal year ending June 30, 2011. Thus, the checks were cancelled and the cash balance was adjusted in the fiscal year ending, June 30, 2011.

For the year ending June 30, 2011, the Authority obtained 89% of its income from its annual State appropriation, which is determined by the Bond Bill each fiscal year.

<i>Non-operating Income</i>	<i>2011</i>	<i>2010</i>
State Appropriations	\$ 30,437,400.00	\$ 9,000,000.00

Expenses decreased by 21% during the fiscal year ending June 30, 2011. The figures below illustrate the most significant changes as a percent of total operating expenses.

<i>Operating Expenses</i>	<i>2011</i>	<i>2010</i>
Delaware Access Program economic expenses	4%	1%
Expense holding accounts expenditures	4%	4%
Grant expenses	81%	37%
Bond Bill grant appropriations	1%	10%
Budget Bill grant appropriations	12%	6%
Bad-debt expense	-2%	42%

During the fiscal year ending June 30, 2011, various loans within the Delaware Access Program defaulted, at which point the Authority was required to disburse the outstanding amount of the loan to the participating bank, as required per the Delaware Access Program bank agreement. Grants expenditures represent, but are not limited to: Strategic Fund performance and capital expenditure grants, Brownfield Assistance grants, SBIR/STTR grants and Clean Energy Partnership grants. All grants are presented by staff to the CDF for approval before disbursement. Bond Bill grant appropriations declined \$1,000,000 because the annual Idea Network of Biomedical Research Excellence (INBRE) grant commitment is now being funded directly out of the Bond Bill, as opposed to going through the Authority's appropriation. There was no change in 2010 and 2011 Bond Bill expense appropriations, but in 2011 the entitled line items were actually requested for disbursement causing an increase in the amount actually expended. Because the Authority created an allowance as of the fiscal year ending June 30, 2010, all previous bad-debt had to be written off, leading to an abnormally large bad-debt expense last year. The allowance for doubtful notes was reduced as of June 30, 2011, by crediting its expense account. This year's reduction is due to a decline in substandard and impaired accounts.

Overall, for the fiscal year ending June 30, 2011, the Authority realized a net operating loss of (\$5,167,512.06); however, net assets increased by \$23,437,005.72. In addition, the Authority's cash increased by \$24,191,475.66. The favorable increases are a result of 1) a 238% increase in State appropriations and 2) a 43% decline in economic development expenditures. While actual expenditures declined, various economic development efforts did not, as reflected in the pending commitments mentioned above.

(II) Summary

Since the beginning of 2010, the Authority's operating activity has grown. 2010 showed a boom in new notes issued, while 2011 showed higher grant expenditures. The Authority continues to utilize its funds to provide low interest loans, grants and other financing tools to entities within the State of Delaware.

The Delaware Economic Development Authority

Balance Sheet
As of June 30, 2011

	2011	2010
Current Assets		
Cash - unrestricted (<i>Notes 3 & 4</i>)	\$ 57,131,811.19	\$ 29,822,154.51
Cash - restricted to LIFT & Clean Energy Fund (<i>Note 3</i>)	2,168,563.47	4,961,063.47
Cash - restricted to loan control account (<i>Note 3</i>)	163,704.15	-
Cash - restricted to Delaware Access Program (<i>Note 3</i>)	1,020,055.50	1,351,326.03
Notes receivable - current (<i>Note 5</i>)	1,054,106.44	1,631,608.00
Allowance for doubtful accounts (<i>Note 6</i>)	(121,886.73)	(26,877.71)
Net Notes receivable	932,219.71	1,604,730.29
LIFT receivable (<i>Note 26</i>)	509,537.16	243,652.57
Expense holding accounts (<i>Note 8</i>)	-	274,008.47
Fee income receivable	4,000.00	2,000.00
Investments (<i>Note 17</i>)	2,703,623.00	3,372,725.00
Total Current Assets	64,633,514.18	41,631,660.34
Non-Current Assets		
Notes receivable – non-current (<i>Note 5</i>)	49,664,374.20	49,595,657.15
Allowance for doubtful accounts - non-current (<i>Note 6</i>)	(1,116,666.67)	(1,534,718.97)
Total Non-Current Assets	48,547,707.53	48,060,938.18
Total Assets	113,181,221.71	89,692,598.52
Current-Liabilities		
Deferred interest income	23,071.22	22,142.27
Deferred deposit revenue	418,515.88	367,827.36
Total Current Liabilities	441,587.10	389,969.63
Net Assets	112,739,634.61	89,302,628.89
Total Liabilities & Net Assets	\$ 113,181,221.71	\$ 89,692,598.52

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The Delaware Economic Development Authority
Statement of Revenues, Expenses, and Change in Net Assets
For the Year Ending June 30, 2011

	2011	2010
Operating Income		
Delaware Access Program master account interest income	\$ 27.48	\$ 46.21
Fee income (Note 7)	81,611.00	242,775.00
Interest on loans (Note 19)	1,839,377.30	457,735.53
Interest on deposits (Note 14)	339,041.39	681,221.00
Cancelled Checks (Note 21)	1,565,000.00	166,000.00
Total Operating Income	3,825,057.17	1,547,777.74
Operating Expenses		
Delaware Access Program banking expenses	2,221.94	2,134.87
Delaware Access Program economic expenses (Note 24)	380,693.54	80,073.04
Expense holding accounts expenditures	391,678.70	460,459.17
Grant expenses (Note 27)	8,179,211.12	4,385,540.39
Bond Bill grant appropriations (Note 16)	100,000.00	1,150,000.00
Budget Bill grant appropriations (Note 12)	1,254,641.04	725,000.00
Collection expense (Note 10)	-	5,000.00
Authorized Office expense (Note 11)	-	8,763.00
Consulting expense (Note 15)	4,700.00	
Bad-debt expense (Note 9)	(190,936.07)	4,928,810.82
Total Operating Expenses	10,122,210.27	11,745,781.29
Operating Loss	(6,297,153.10)	(10,198,003.55)
Non-Operating Income		
State appropriation (Note 22)	30,437,400.00	9,000,000.00
Interest income on investments	-	100.97
Total Non-Operating Income	30,437,400.00	9,000,100.97
Income before Transfers	24,140,246.90	(1,197,902.58)
Non-Operating Expenses		
Loss on investment (Note 17)	703,241.18	1,988,194.00
Investment expense (Note 13)	-	6,300.00
Total Non-Operating Expenses	703,241.18	1,994,494.00
Change in Net Assets	\$ 23,437,005.72	\$ (3,192,396.58)
Beginning Assets	\$ 89,302,628.89	92,490,025.47
Delaware Access Bank reconciliation (Note 18)	-	5,000.00
Ending Assets	\$ 112,739,634.61	\$ 89,302,628.89

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The Delaware Economic Development Authority
Statement of Cash Flows
For the Year Ending June 30, 2011

Cash Flows from Operating Activities	2011	2010
Cash received from fee income <i>(Note 7)</i>	\$ 79,611.00	\$ 242,375.00
Cash recovered from cancelled grant check <i>(Note 21)</i>	1,565,000.00	166,000.00
Cash recovered from cancelled loan checks <i>(Note 21)</i>	12,950,000.00	-
Cash received for principal payments	1,577,580.36	3,017,846.79
Cash paid to grant expenses <i>(Note 27)</i>	(8,176,711.12)	(4,375,040.39)
Bond Bill appropriations <i>(Note 16)</i>	(100,000.00)	(1,150,000.00)
Budget Bill appropriations <i>(Note 12)</i>	(1,254,641.04)	(725,000.00)
Cash paid to new notes <i>(Note 20)</i>	(14,107,500.00)	(36,523,304.00)
Cash paid from loan control account, recorded as note <i>(Note 3)</i>	(136,295.85)	-
Cash paid to LIFT program	(272,991.80)	(237,689.59)
Cash paid to Access Program banking fees	(2,221.94)	(2,134.87)
Cash received from Access Program interest	27.48	46.21
Cash received from interest on deposits <i>(Note 14)</i>	339,041.39	681,221.00
Cash received from interest payments <i>(Note 19)</i>	1,845,089.41	457,735.53
Cash received from deferred interest income	928.95	1,543.07
Cash received from deferred deposit revenue	50,688.52	29,748.00
Cash paid to holding accounts <i>(Note 8)</i>	(618,744.75)	(424,048.37)
Cash received from reversion of holding account <i>(Note 8)</i>	501,074.52	-
Cash paid to Access Program economic expenditures <i>(Note 24)</i>	(380,693.54)	(80,073.04)
Cash paid for authorized Office expense <i>(Note 11)</i>	-	(8,763.00)
Cash paid for collection expense <i>(Note 10)</i>	-	(5,000.00)
Cash paid for consulting expense <i>(Note 15)</i>	(4,700.00)	
Cash paid to Clean Energy grants	(2,500.00)	(10,500.00)
Cash reverted for insufficient funds from borrower <i>(Note 25)</i>	(5,712.11)	
Net Cash Used for Operating Activities	(6,153,670.52)	(38,945,037.66)
Cash Flows from Investing Activities		
Cash paid to equity investments	(80,000.00)	(620,000.00)
Repayment of equity/venture capital <i>(Note 28)</i>	145,860.82	511,650.97
Cash paid to investment expense <i>(Note 13)</i>	-	(6,300.00)
Net Cash Used for Financing Activities	65,860.82	(114,649.03)
Non-Capital Financing Activities		
Cash received from State appropriation <i>(Note 22)</i>	30,437,400.00	9,000,000.00
Cash transferred in from account closing		-
Cash paid for banking fees		
Net Cash Used for Financing Activities	30,437,400.00	9,000,000.00
Access Program Reconciliation <i>(Note 18)</i>	-	5,000.00
Net Increase/Decrease in cash	\$ 24,349,590.30	\$ (30,054,686.69)
Beginning Cash & Cash Equivalents	36,134,544.01	66,189,230.70
Ending Cash & Cash Equivalents <i>(Notes 3 and 4)</i>	\$ 60,484,134.31	\$ 36,134,544.01

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The Delaware Economic Development Authority

Statement of Cash Flows Continued

For the Year Ending June 30, 2011

Operating Income (Loss) Reconciliation

Operating Loss	\$ (6,297,153.10)
Non-Cash Adjustments	
Increase in fee income receivable	(2,000.00)
Increase in investments	(100,000.00)
Change in Assets	
Net change in notes receivable	\$ 508,784.51
Decrease in expense holding accounts	274,008.47
Increase in LIFT receivable	(272,991.80)
Increase in deferred interest income	928.95
Increase in deferred deposit revenue	50,688.52
Increase in bad debt expense	(315,936.07)
Net Cash Used for Operating Activities	<u><u>\$ (6,153,670.52)</u></u>

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NOTE 1: NATURE OF THE AUTHORITY

Title 29, Chapter 50, Subchapter IV of the *Delaware Code* established The Delaware Economic Development Authority (the Authority) to assist the State of Delaware and its citizens in matters such as stable employment, protection of public health and welfare, and the construction, acquisition, rehabilitation, modernization and renovation of facilities related to industrial, commercial and agricultural businesses. In addition, the Authority is tasked with encouraging the development of the State as a banking and financial center and assisting in the financing of facilities and activities of exempt persons in order to contribute to the prosperity, health, and general welfare of the citizens of the State. The Authority primarily offers the following services:

a) Loans

The Authority is empowered to make direct loans to applicants. Proceeds of a loan can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital.

b) Grants

The Authority is empowered to make financial assistance in the form of grants to applicants. Proceeds of a grant can be used for, but are not limited to, the acquisition of land, buildings, machinery and equipment, the expansion of an existing building, or the renovation of fixed assets and buildings. Proceeds can also be used to augment working capital.

c) Investments

1) Equity

The Authority is empowered to purchase common or preferred stock, membership units, and/or convertible debt from an applicant. Proceeds of an equity investment can be used for, but are not limited to, financing expenses, working capital, office space, patent filings, or prototyping.

2) Venture Capital Investments

The Authority is empowered to provide equity and proceeding capital calls to private equity firms. The Authority is also empowered to advance capital calls.

d) SBIR/STTR Bridge Grant Assistance

In order to encourage Delaware small businesses to participate in the federal Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer (STTR) program, the Authority has set forth criteria to help maintain continuing SBIR/STTR program research and development. The purposes of the program are to (1) stimulate technological innovation; (2) use small business to meet federal research and development needs; (3) encourage the participation by disadvantaged persons in technological innovation and (4) increase private sector commercialization of program participants.

e) Brownfield Assistance

The Authority is empowered to make financial assistance in the form of matching grants to applicants for the costs of conducting environmental assessments and remediation at Certified Brownfield sites.

f) Tax-Exempt Bond Financing

The Authority provides statewide financial assistance to new or expanding businesses, governmental units and certain organizations that are exempt from federal income taxation (collectively, assisted persons) by issuing tax-exempt bonds and lending the proceeds of such bonds to these assisted persons. Tax exempt bonds bear lower interest rates than comparable taxable bonds, because the interest paid to bond holders is exempt from federal and Delaware income taxes. The Authority is able to pass on this lower interest rate to the assisted persons.

The Authority does not guarantee the payment of principal or interest on the bonds, and the bonds are not backed by the full faith and credit of the State of Delaware. Tax exempt financing may be cost effective for projects involving the issuance of more than \$1,250,000.

The aggregate principal amount payable of Industrial Revenue Bonds outstanding was approximately \$1,203,363,765.

g) Delaware Access Program

The Delaware Access Program is designed to give banks a flexible and extremely non-bureaucratic tool to make business loans that are somewhat riskier than a conventional bank loan, in a manner consistent with safety and soundness. It is designed to use a small amount of public resources to generate a large amount of private bank financing, thus providing access to bank financing for many Delaware businesses that might otherwise not be able to obtain such access.

The Delaware Access Program is based on a risk-pooling concept. When a bank makes a loan under the program, the borrower pays a one-time premium charge, which is matched by a bank premium payment. The Authority then matches the combined total of the borrower's payment and the bank's payment. The borrower's premium payment is one of the terms of the loan to be determined during the private transaction between the bank and the borrower.

h) Limited Investment for Financial Traction (LIFT)

This loan program allows participating small businesses to defer interest payments on their line of credit for a two-year period. The participating bank recommends the small business borrower to the Delaware Economic Development Office. Once approved, the Authority will begin paying the interest on the existing line of credit for two years. After two years expire, the business will have five years to repay the Authority the amount borrowed at zero percent interest, (0%).

i) Bond Bill Grant Appropriations

Epilogue language requires the Authority to fund certain programs, upon disbursement requests.

j) Budget Bill Grant and Expenses Appropriations

Epilogue language requires the Authority to fund certain programs, upon disbursement requests.

k) Clean Energy Grants

The Authority participates in the Clean Energy Partnership. The Partnership's funds are restricted within "Cash – restricted to LIFT and the Clean Energy Fund". Proceeds are limited to Partnership approved projects.

Note: With all programs, various requirements and limitations apply.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

a) Basis of Accounting & Presentation

The Authority accounts for its operations as a proprietary enterprise fund in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which requires recognition of revenues when earned and expenses when incurred. The Authority has elected not to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Government Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting.

b) Cash & Cash Equivalents

A portion of the Authority's unrestricted cash and cash equivalents is controlled by the State Treasurer's Office in Dover, Delaware. A portion of this cash is restricted to the Clean Energy Fund, in its entirety, and to the LIFT program allotment. The remaining portion of cash and cash equivalents, also restricted, consists of the Delaware Access Program reserve accounts at U.S. Bank, PNC, Wachovia, WSFS, WSFS-FSCL, Citizens and Wilmington Trust. The Authority owns the funds in the bank's earmarked reserve; however, these funds are legally dedicated solely to cover losses on loans made by the bank under the program. Legally, the Authority pledges the funds to be available to pay claims on loans under the program. In the case of the Authority electing for a bank to withdraw from the program, due to abuse by a participating bank or a lack of participation (two-year minimum), the Authority may close and transfer the full balance elsewhere. Interest earned and deposits made by participating banks are considered deferred revenues to the Authority and may be realized upon the account closing.

c) Notes Receivable

During the June 30, 2011 fiscal year the Authority closed the following funds and transferred their balances into the Delaware Strategic Fund: 1) the Technology-based Seed I Fund, 2) the Technology-based Seed II Fund and 3) the Pre-Venture Fund. In addition, any future revenues from the abovementioned accounts in addition to the Venture Capital Fund will be deposited into the Strategic Fund. The entities pay principal and interest to the Authority, based on the loan terms. The current portion of notes receivable includes the portion of principal to be collected during the next fiscal year. The long-term portion of notes receivable includes the remaining principal.

d) Allowance for Doubtful Notes

The allowance for doubtful notes was created in the 2010 fiscal year. In addition to creating an allowance account, all defaulted loans, existing as of June 30, 2010, were directly written off in the 2010 fiscal year financial statements, with the approval of the Council on Development Finance.

e) Expense Holding Accounts

Based upon amounts assigned by the annual Budget Bill, the Authority appropriates from its revenue account to its expense holding accounts for personnel, travel, supplies and materials, contractual services, energy and capital outlay costs. These prepaid expense accounts are replenished on an annual basis and the Delaware Strategic Fund is not liable for such expenses.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

f) Fee Income Receivable

Fee income consists of application fees, modification fees and conduit bond service fees. Application fees are due prior to project approval. Thus, any fee receivable is the balance of annual conduit bond maintenance fees.

g) Investments

Investments consist of (a) Venture Capital Fund investments to private equity firms, valued by their annual K-1 reports and (b) Pre-Venture Fund equity investments valued at cost.

h) Deferred Income

Interest earned and deposits made by participating Delaware Access Program banks are considered deferred revenues and may be realized upon the account closing. Until closing, funds in their entirety are at the disposal to participating banks.

i) Operating Revenues vs. Non-Operating Revenues

Operating revenues accounts, fee income and return on loans, result from the Authority's service activities. Non-operating revenues include income earned on investment of the Authority's funds and State appropriations.

j) Operating Expenses

Operating expenses result from the Authority's service activities. Grant expenditures include any grants disbursed within the fiscal year (including current draws made on projects approved in previous fiscal years). Numerous grants are written with clawback provisions. The clawback recovery account is a contra-expense account created to account for any clawback collected. Bad-debt expense is the result of notes determined to be defaulted.

k) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: CASH & CASH EQUIVALENTS

“Unrestricted cash” is available for disbursement in the amount of \$57,131,811.19. The LIFT Fund balance, in the amount of \$2,100,000 and the Clean Energy Fund Balance, in the amount of \$68,563.47, are included in the “Cash - restricted to LIFT and Clean Energy Fund” which totaled \$2,168,563.47. Combined, “Cash - restricted to LIFT and Clean Energy Fund” and “Unrestricted cash” amount to \$59,300,374.66. These funds are part of an investment pool controlled by the personnel of the State Treasurer’s Office in Dover, Delaware and all investment decisions are made by the State Treasurer’s Office. These funds held by the State of Delaware investment pool are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

County Bank holds a control account in the Authority’s name. The Authority makes disbursements upon receipt approval to its borrower. The account was opened on June 29, 2011 with a balance of \$300,000. The account balance as of June 30, 2011 amounts to \$163,704.15, and it was classified as a current asset. The amount withdrawn by the borrower, \$136,295.85, was recorded as a note receivable.

The remaining \$1,020,055.50 of the cash and cash equivalents balance was the book and bank balance of the Delaware Access Program accounts as of June 30, 2011. These funds are restricted to the use of the Delaware Access Program. Of this balance, \$775,403.00 is insured by the Federal Deposit Insurance Corporation (FDIC); \$244,652.50 is uninsured.

At June 30, 2011, the Authority had cash and cash equivalents balance of \$60,484,134.31.

NOTE 4: CONTINGENCIES

In the normal course of business, the Authority extends various outstanding offers of commitment. As of June 30, 2011, total outstanding contingencies amount to \$65,284,121. These commitments are not reflected in the cash balances. Of this amount, \$37,161,066 have been approved by the Council on Development Finance, and \$28,123,055 remain as outstanding offers, yet to be presented to the Council on Development Finance.

The Authority could have insufficient cash funds assuming all outstanding contingencies are eventually approved for disbursement and no new revenues and appropriations are realized by the Authority.

NOTE 5: NOTES RECEIVABLE*Allowance 6/30/2011*

Notes receivable – non-current	\$49,664,374.20
Notes receivable – current	\$1,054,106.44
Total	\$50,718,480.64

Notes receivable activity for the year ended June 30, 2011 follows:

Beginning Balance	Cancelled Note Disbursement Checks	New Loans	Principal Payments	Direct Write-offs	Equity Conversion	Ending Balance
\$51,227,265.15	(12,950,000.00)	14,243,795.85	(1,577,580.36)	(125,000.00)	(100,000.00)	\$50,718,480.64

NOTE 6: ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts represents 2.4% of the outstanding notes receivable portfolio.

Allowance 6/30/2011

Impaired position	(\$121,886.73)
Substandard	(\$1,116,666.67)
Total	(\$1,238,553.40)

The allowance for doubtful notes was reduced to \$1,238,553.40 as of June 30, 2011, by crediting its expense account by \$323,043.28. The reduction is due to a decline in substandard and impaired accounts.

Change in Allowance 6/30/2011

Allowance 6/30/2010	(\$1,561,596.68)
Allowance 6/30/2011	(\$1,238,553.40)
Total Change	\$323,043.28

The current portion and non-current portion of the allowance are displayed below:

Non-Current Portion June 30, 2011

Allowance 6/30/2011	(\$1,238,553.40)
Less Current Portion	(\$121,886.73)
Non-current portion	(\$1,116,666.67)

NOTE 7: FEE INCOME

During the fiscal year ending June 30, 2011, fee income decreased due to the maturity of an abnormally high bond of which the assisted persons paid the Authority annual fees of 1%.

NOTE 8: EXPENSE HOLDING ACCOUNTS

As of June 30, 2010, the expense holding accounts held balances, which carried over into this fiscal year ending June 30, 2011. At the end of the fiscal year ending June 30, 2011 the total excess funds remaining were reverted back to the revenue holding account. The Authority's revenue account fund is responsible for expense holding expenditures, as opposed to the Strategic Fund.

<i>Activity</i>	<i>Amount</i>
Beginning expense holding accounts' balance July 1, 2010	\$274,008.47
Transferred from revenue holding account to expense holding accounts	\$618,744.75
Expense holding account expenditures	(\$391,678.70)
Balance reverted back to Revenue Holding Account	(\$501,074.52)
Ending Expense Holding Account Balance June 30, 2011	\$0.00

NOTE 9: BAD-DEBT EXPENSE

The bad-debt expense is a temporary account used to recognize direct write-off expenses and additions to allowances. Changes to the allowance are reviewed in Note #6. The accumulation of defaulted loans have been directly written as a bad-debt expense and removed from the notes receivable account. The direct write-offs are summarized below:

<i>Entity</i>	<i>Original Amount</i>	<i>Date</i>	<i>Balance 6/30/2011</i>
Joy R. Evans	\$75,000.00	Sep-94	\$75,000.00
Credit Invest	\$50,000.00	Nov-05	\$50,000.00
LIFT write-offs			\$7,107.21
Total bad-debt expense due to write-offs			\$132,107.21
Allowance decrease ¹			(\$323,043.28)
Net Bad-Debt Expense			² (\$190,936.07)

¹See Note 6; Change in Allowance

²The negative Net Bad-Debt Expense indicates a decline in the expense.

The Authority's direct write-offs accounted for 0.25% of its portfolio. Based on FDIC statistics as of May 24, 2011, the average percent of net charge-offs to loans for commercial and industrial loans is approximately 1.82%, in a given year.

NOTE 10: COLLECTION EXPENSE

During the fiscal year ending June 30, 2010, the Authority held an auction in an attempt to collect on a defaulted loan. The cost of equipment removal totaled \$5,000.

NOTE 11: AUTHORIZED OFFICE EXPENSE

During the fiscal year ending June 30, 2010, the Authority approved a Blue Collar Fund expense in the amount of \$8,763. This fund is for the use of the Delaware Economic Development Office's (the Office) as opposed to the Authority.

NOTE 12: BUDGET BILL GRANT APPROPRIATIONS

The Budget Bill for the fiscal year ending June 30, 2011 designates the following appropriations for the expense of the Authority for the fiscal year ending June 30, 2011. Certain conditions, limitations and procedures apply.

<i>Purpose</i>	<i>Prior Year Balance</i>	<i>2011 Appropriation</i>	<i>Disbursement</i>
General Operations (the Office)	-	\$445,900.00	¹ \$254,641.04
Marketing Plan ²	\$300,000.00	\$300,000.00	² \$600,000.00
Small Business Development Center	-	\$400,000.00	\$400,000.00
I.T. Learning Center	\$150,000.00	\$150,000.00	-
Total			\$1,254,641.04

¹Disbursement refers to the amount which has been released from the spending account to the recipient.

²The \$600,000 disbursed for the Marketing Plan was accredited to appropriations assigned to the Budget Bill's for the fiscal years ending June 30, 2010 and June 30, 2011.

The above expenses are appropriated to Authority due to its ability to earn interest on the Strategic Fund. In previous years, interest earned on the Strategic Fund exceeded the cost of these appropriations.

However, for the fiscal year ending June 30, 2011 the Authority's funds earned \$339,041.39 in interest. Actual appropriated expenses disbursed amounted to \$954,641.04. Thus, the difference was disbursed from the Authority's Strategic Fund balance.

NOTE 13: INVESTMENT REPAYMENT

During the fiscal year ending June 30, 2010, the Authority withdrew from Murex, one of its Venture Capital Investments. The balance prior to disbursement amounted to \$511,650.97. The net amount received, after processing a \$6,300.00 accounting expense, amounted to \$505,350.97.

NOTE 14: INTEREST ON DEPOSITS

Interest earned on the funds held by the Authority declined due to its funds earning lower interest rates.

NOTE 15: CONSULTING EXPENSE

The Authority spent \$4,700 for annual tax preparation consulting services.

NOTE 16: BOND BILL GRANT APPROPRIATIONS

The following funds are included in the 2011 Bond Bill:

<i>Program</i>	<i>Appropriation</i>	<i>Disbursement</i>
Center of Composite Materials	\$100,000.00	\$100,000.00
Total		\$100,000.00

NOTE 17: LOSS ON INVESTMENT

The K-1 reports indicated the following gain (loss) on equity investments:

<i>Investment</i>	<i>Loss on Investment</i>
Innovation Ventures, LP	\$(147,102.18)
Blue Rock	\$(322,000.18)
Maverick	\$(224,139.18)
Total	\$(703,241.18)

NOTE 18: ACCESS PROGRAM RECONCILIATION

As of June 30, 2010, \$5,000 was withdrawn from the US Bank Access account to be deposited to the WSFS Access account. The withdrawal appeared on the June 30, 2010 US Bank statement, but the deposit did not appear until WSFS's September 31, 2010 statement. Thus, \$5,000 was reconciled to account for the Authority's cash.

NOTE 19: INCREASE IN INTEREST ON LOANS

The increase in interest earned on notes is due to the increased amount of notes issued in the fiscal year ending June 30, 2010.

NOTE 20: DECREASE IN NEW NOTES

The decline in notes receivable cash outflow is due to a decrease in note issuance.

NOTE 21: CANCELLED CHECKS

When the Authority writes a disbursement check to an entity, the amount of the check is removed from the Strategic Fund and placed in a separate State holding account until that check is cashed. Various checks were written during the fiscal year ending June 30, 2010; however, these specific checks expired during the fiscal year ending June 30, 2011. Thus, the checks were cancelled and the cash balance was adjusted in the fiscal year ending, June 30, 2011.

NOTE 22: INCREASE IN STATE APPROPRIATIONS

The Authority receives the majority of its funds from the State appropriation which is determined by the Bond Bill each fiscal year.

NOTE 23: NOTE CONVERSION TO EQUITY

The following notes converted to equity during the fiscal year ending June 30, 2011:

<i>Entity</i>	<i>Original Amount</i>	<i>Date</i>	<i>Balance 6/30/2011</i>
Sky-Trax Inc.	\$50,000	4/1/2007	\$50,000
Sky-Trax Inc.	\$50,000	12/1/2007	\$50,000
Total Equity Conversion			\$100,000

NOTE 24: ACCESS PROGRAM ECONOMIC EXPENDITURES

The Authority is required to disburse requests for Access Program note defaults.

NOTE 25: INSUFFICIENT FUNDS FROM BORROWER

The Authority recorded a cash receipt from a borrower payment; however, the check bounced and the adjustment was recorded.

NOTE 26: INCREASE IN LIFT

The increase in LIFT receivable is due to an increase in program activity. Note: \$7,107.21 in LIFT receivables were directly written off.

NOTE 27: INCREASE IN GRANT EXPENSES

The increase in grant expenses is due to an increase in Strategic Fund grant activity.

NOTE 28: EQUITY REPAYMENT

Maverick Network Solution paid \$145,860.82 back to the Authority for its equity investment funding.